1999 Country Reports on Economic Policy and Trade Practices
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OMAN

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998 1/	1999 2/
Income, Production and Employment:			
Nominal GDP 3/	15.8	14.1	14.2
Real GDP Growth (pct) 3/	3.6	-10.6	0.7
GDP by Sector:			
Agriculture & Fisheries	0.4	0.4	0.4
Petroleum	6.3	4.4	4.5
Manufacturing	0.6	0.6	0.6
Services 4/	6.2	6.5	6.4
(total services less public services sector)			
Government Services 4/	1.8	1.7	1.6
Per Capita GDP (US$)	7,006	6,165	6,122
Labor Force (000s)	630.9	634.8	624.0
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2 Jan-Dec) 5/	24.5	4.8	0.3
Consumer Price Inflation 6/	0.4	-0.5	-0.5
Exchange Rate (Omani Rial/US$)	2.6	2.6	2.6
Balance of Payments and Trade: 7/			
Total Exports FOB	7.6	5.5	5.9
Exports to U.S. (US$ millions) 8/	260.9	230.4	227.7
Total Imports CIF	5.2	5.8	4.6
Imports from U.S. (US$ millions) 8/	342.0	302.7	175.5
Trade Balance	2.4	-0.3	1.3
Balance with U.S. (US$ millions)	-81.1	-72.2	52.2
External Public Debt	3.0	N/A	N/A
Fiscal Deficit/GDP (pct) 9/	0.2	6.9	10.8
Current Account Deficit/GDP (pct) 10/	7.0	20.8	12
Debt Service Payments/GDP (pct)	2.0	N/A	N/A

Gold and Foreign Exchange Reserves 11/	2.1	2.0	2.5
Aid from U.S. (US$ millions) 12/	0.2	0.2	0.2
Aid from Other Sources	N/A	N/A	N/A

1/ All 1998 GDP data is provisional.

2/ 1999 estimates are annualized based on January-June data from the Central Bank of Oman and the September 30, 1999 Ministry of National Economy statistical bulletin unless otherwise indicated.

3/ The 1999 GDP growth rate was determined by annualizing the January-June 1999 GDP, using September 1999 statistics published by the Ministry of National Economy.

4/ Health and Education are included in services, although most government-provided. services shown are current (not capital) expenditures for public administration and defense.

5/ 1999 money supply data is based on January through June 1999. Source: Central Bank of Oman.

6/ Muscat Governate CPI.

7/ The trade balance with the U.S. does not include Omani oil purchased by the United States on the spot market. Trade data does not necessarily include all U.S. exports subsequently reexported to Oman from Dubai, UAE, primary entrance point for most U.S. goods to the southern Arabian Peninsula.

8/ 1999 trade data is annualized using January-September 1999 figures from the U.S. Department of Commerce. 1997-1999 trade data is from the U.S. Department of Commerce, which has lower figures for U.S. exports to Oman than Omani customs data, presumably due to the large numbers of U.S. products re-exported to Oman from the United Arab Emirates.

9/ Fiscal deficit as a percentage of GDP was annualized using the August 31, 1999 figures.

10/ Current account deficit for 1999 is based on the Standard and Poor's projection for the year.

11/ Data represent Central Bank assets. 1999 data is June 30, 1999 balance. The State General Reserve Fund does not publish its holdings.

12/ Funding for International Military Education and Training (IMET) program.

Sources: Central Bank of Oman, Ministry of National Economy. Bilateral trade data is from U.S. Department of Commerce.

1. General Policy Framework

The Sultanate of Oman is a nation of 2.3 million people (including as many as 600,000 expatriates) living in the arid mountains and desert plain of the southeastern Arabian Peninsula. Oman's nominal GDP in 1998 was $14.1 billion, a decline of 10.6 percent from 1997. Oman is a small oil producer and ranks 18th in the world for overall oil production. In 1998, Oman cut oil production to about 820,000 barrels per day in line with OPEC production cuts although Oman is not a member of OPEC. This was in response to declining oil prices in 1998, which saw a 29 percent drop in Omani oil revenue in 1998. This production cut was maintained in 1999 even after the oil price recovery which began during the second quarter of 1999. Oil revenue accounted for 61 percent of government revenues in the first eight months of 1999. Oman's estimated per capita GDP dropped from about $ 7,000 in 1997 to about $ 6,100 in 1998. Preliminary figures released by the Ministry of National Economy indicate no GDP growth during the first six months of 1999. However, the recovery in oil prices witnessed during the second quarter of 1999 will most likely bring about a positive GDP growth of about one percent and a corresponding increase in per capita income. Oil revenues increased by 12.4 percent during the period January through July 1999 compared to the same period in 1998. Preliminary 1999 figures also indicate a decrease in total imports of about 15 percent and an increase in exports of about 6.7 percent during the first seven months of 1999. This should result in a $1.3 billion trade surplus at the end of 1999.

A significant proportion of Oman's rural population lives near the poverty line. The annual population growth, as estimated by the government, is around 2 percent. This presents an ever-increasing demand on infrastructure. It is estimated that 46 percent of the Omani population is under the age of 15 and 70 percent of the population is under the age of 25. Therefore job creation and "Omanization," i.e., transfer of expatriate jobs to Omanis, are major government priorities.

The Omani Government links developmental priorities and budgetary plans in five-year planning cycles. Oman's Fifth Five Year Plan, 1996-2000, laid out a program designed to shift economic development from governmental to private initiative; diversify the national economy from dependence on crude oil revenue, primarily through future natural gas sales and light industry; and educate a productive national work force for private employment. Aiming at a zero deficit by the year 2000, stringent annual budgets were planned on the basis of revenue of $15 per barrel of petroleum. While the 1997 budget deficit was just $47 million, the sharp drop in oil prices in 1998 left Oman with a budget deficit of nearly $975 million in 1998, or approximately 6.9 percent of GDP. Despite fiscal tightening, there is no personal income tax in Oman, and with the exception of the recent introduction of modest fees for medical visits, Omanis continue to enjoy free medical care and free education, including post-secondary school, vocational and higher education. With oil prices around $ 10 a barrel by the end of 1998, the 1999 State General Budget reduced expenditures by about 6 percent (compared to the 1998 budget) without affecting spending on such services as health, education, and electricity. The

Omani government also took measures to increase non oil revenue in 1999 by increasing customs duties to 15 percent on a wide range of goods including automobiles and increasing the corporate income tax from 7.5 percent to 12 percent. Preliminary figures issued by the Ministry of National Economy for the first eight months of 1999 revealed a fiscal deficit of around $ 1 billion.

Among major public expenditure categories in 1998, defense and security accounted for 38 percent of current expenditures (military capital expenditures are not published). Current and capital expenditures for the national oil company Petroleum Development Oman (PDO) accounted for 15.2 percent of total public expenditures. This trend continued in 1999, as defense and security current expenditures accounted for 39 percent and PDO current and capital expenditure accounted for 13.9 percent of total public expenditures through the end of August 1999.

Oman's economy is too small to require a complicated monetary policy. The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments which the bank uses are reserve requirements, loan to deposit ratios, treasury bills, rediscount policies, currency swaps and interest rate ceilings on deposits and loans. Such tools are used to regulate the commercial banks, provide foreign exchange and raise revenue, not as a means to control the money supply. The large amounts of money repatriated from Oman by foreign workers and by foreign companies in Oman help ease monetary pressures but also contributes to current account deficits. Outward workers' remittances decreased by 13 percent in 1997 to $1.5 billion, or 9.5 percent of GDP. Though outward workers remittance was further reduced to $ 1.4 billion in 1998, it increased as a percentage of GDP.

2. Exchange Rate Policies

The rial has been pegged to the dollar since 1973. Since a 10.2 percent devaluation in 1986, it has remained steady at about $2.60 to 1 rial.

3. Structural Policies

Oman operates a free market economy, but the government is at present the most important economic actor, both as an employer and as a purchaser of goods and services. Contracts for goods and services for the government, including the two largest purchasers, Petroleum Development Oman and the Defense Ministry, are done on the basis of tenders overseen by a Tender Board. Oman promotes private investment through a variety of soft loans (currently through the Ministry of Commerce and Industry and, for projects under 250,000 R.O., the Oman Development Bank, reorganized in 1997), tax incentives, modest procurement preferences, and subsidies, mostly to industrial and agricultural ventures. The government grants five-year tax holidays to newly established industries or expansion projects; a one time renewal is possible. Oman has fairly rigorous health, safety and environmental standards, and is attempting to upgrade its enforcement capabilities.

Oman revised its corporate tax structure in 1999 to increase its non-oil revenue and make it easier for minority foreign-owned joint ventures to benefit from the national tax rate. A 12 percent maximum rate of corporate income tax is now applicable to wholly Omani-owned firms and companies with no more than 49 percent direct foreign ownership and majority Omani ownership. A graduated system of taxes, with a ceiling of 25 percent, applies to Omani/foreign joint venture companies with up to 99 percent direct foreign ownership. 100 percent foreign owned companies are subject to a corporate taxation rate of up to 50 percent, however, the tax rate for foreign petroleum companies is set in concession agreements. Import duties were hiked early in 1999 and are currently between five percent and fifteen percent. There are no personal income taxes or property taxes. Employers pay 7 percent of a foreign worker's basic salary to a vocational training fund for Omanis, and 8 percent of an Omani's basic salary to a social security fund. The government imposes substantial fees for labor cards, and companies are liable for fines if they do not reach government-specified levels of "Omanization" by the end of target deadlines.

The Omani government continues to emphasize privatization of the telecommunications, power, and transport sectors as a national priority. In 1996, Oman became the first Gulf nation to turn exclusively to the private sector to finance, build and operate a power plant, a 90 MW plant in Manah. Title for the Manah plant will revert to the government after 20 years and the project is undergoing an expansion to reach 270MW. In 1999, the government awarded a tender for a 200 MW power plant in Salalah and selected international financial advisors for planned privatizations in the telecommunications, power, and aviation sectors. The government has been involved in a number of joint-ventures with private sector firms in major infrastructure projects. November 1998 saw the opening of a world-class container transshipment port at Salalah, owned and operated by Salalah Port Services (SPS) a joint venture between the Omani Government, Sea-Land (U.S.), Maersk Lines (Denmark), and Omani investors operating under the name Salalah Port Services. In mid-1999, Maersk purchased many of Sea-Land's overseas operations, including Sea-Land's participation in the Port Salalah project. The container port, already one of the 20 largest ports in the world is in close proximity to major East-West shipping lanes and is expected to spur industrial growth in the Salalah area.

In 1999 the government announced plans to establish an industrial free zone at Port Salalah, under the management of Salalah Port Services. As of October 1999, construction on the $2 billion Oman Liquefied Natural Gas (OLNG) plant at Sur was over 90 percent complete. A joint venture between the Omani Government, Royal Dutch Shell, Total, and Korea Gas, OLNG is expected to begin deliveries in April 2000. The entire 6.6 million ton/year LNG output of OLNG has been sold in long term contracts to Korea, India (an affiliate owned by the U.S. firm Enron), and Japan. Financing on the downstream plant is on a limited recourse basis, with upstream facilities and a 360 km pipeline financed through the corporate developers, principally Royal Dutch Shell. The future of the proposed Sur fertilizer plant, a joint venture between the Omani Government and Indian state investors, is not clear at this stage. The government is also planning gas-driven projects in the northern Omani port city of Sohar, including a $3 billion aluminum smelter complex (still seeking technical partners). However, government plans for a $900 million polyethylene plant in Sohar have stalled as the originial joint-venture partner, BP/Amoco, withdrew from the project in 1999. In 1999, the government proceeded with the planned $250 million expansion of Sohar port, awarding the tender for breakwater construction to Daewoo, and announced plans to build gas pipelines to Sohar and Salalah by 2001.

4. Debt Management Policies

Oman's sovereign debt is estimated at $3 billion. In October 1999 the government withdrew plans for a $400 million Eurobond issue, citing the improved performance of the economy in the wake of increased oil prices. Although Oman maintains a solid reputation for credit worthiness, in March 1999, Standard and Poors revised Oman’s credit rating from stable to negative (BBB-). There are no International Monetary Fund or World Bank adjustment programs. The government gives little publicity to the occasional modest foreign aid that it donates. Sultan Qaboos also makes occasional personal donations to Arab causes, Muslim institutions, or worthy foreign organizations. Oman does not publish figures on the level of its external debt or its fund to meet future contingencies, the State General Reserve Fund (SGRF). The 1998 budget crunch required a draw down of $704 million from the SGRF in 1998 and $ 1.17 billion through August 1999, an increase of 200 percent over the corresponding period in 1998.

5. Significant Barriers to U.S. Exports

A license is required for all imports. Special licenses are required to import pharmaceuticals, liquor and defense equipment. Some foreign suppliers have previously complained that exclusive agency agreements are difficult to break. In September 1996, Oman amended its agency law to allow non-exclusive representational agreements. Although currently not a member of the WTO, Oman is actively seeking to accede to the WTO and will need to introduce new legislation in order to comply with WTO requirements on market access for goods and services, intellectual property protection, and customs valuation .

Services barriers consist of simple prohibitions on entering the market. For example, entry by new foreign firms in the areas of banking, accountancy, law and insurance is not permitted (except as contracted for specialized services required by the government), although joint ventures for professional services are encouraged between Omanis and foreign firms. The central bank seeks the strengthening and further consolidation of existing banks. It has placed limits on the percentage of the consumer loan portfolio and is pressing for the BIS 12 percent capital adequacy standard. Citibank has a wholly-owned branch in Muscat. Major U.S. engineering and accounting firms are well represented. Omani firms appear quite open to affiliation with U.S. firms. The U.S. firm Curtiss, Mallet-Prevost, Colt & Mosle is the only U.S. law firm with an office in Muscat and serves as legal counsel to the Ministry of Electricity of Water for the Salalah power privatization project.

Tax policy discourages wholly foreign-owned firms. Oman attempts to attract foreign firms and investors to participate in joint ventures with Omani majority ownership. It has a case-by-case approach towards major projects by wholly or largely foreign owned firms. For very large strategic projects, Oman may offer foreign investors control commensurate with their investment and risk.

Oman uses a mix of standards and specifications systems. Generally, GCC standards are adopted and used. However, because of the long history of trade relations with the UK, British standards have also been adopted for many items, including electrical specifications. Oman is a member of the International Standards Organization and applies standards recommended by that organization. U.S. exporters sometimes run afoul of dual language labeling requirements or, because of long shipping periods, have trouble complying with shelf-life requirements. U.S. export brokers and Omani trading firms are prone to trade difficulties when deliveries are not made within demanding government tender delivery dates.

Despite requirements to "Omanize" the work force, the private sector depends on a high number of expatriates for managerial, technical, and physical labor. Government statistics indicate that over 90 percent of workers in the private sector are expatriates.

Oman continues to promote “Buy Omani” laws; this is a slow process as very few locally made goods meeting international standards are available. The Tender Board evaluates the bids of Omani companies for products and services at 10 percent less than the actual bid price, but imported goods and services bid by Omani agents are said to receive the same national preference. Because of short lead times on open tenders, it is often difficult to notify U.S. firms of trade and investment possibilities, and thereafter difficult for those firms to obtain a local agent and prepare tender documents. Foreign firms seeking to compete for open and unpublished tenders find it advantageous to develop relationships with local firms.

Oman's customs procedures are complex. There are complaints of sudden changes in the enforcement of regulations. As part of "Omanization," only Omani nationals are permitted to clear shipments. Processing of shipments at Omani ports and airports can add significantly to the amount of time that it takes to get goods to the market or inputs to a project. Overland shipments from the UAE seldom encounter problems.

Oman substantially eased visa requirements in 1999 by offering a 72 hour visa for U.S. and European tourists and businessmen arriving at Muscat's Seeb Airport. However, this visa is non-extendable and the airline carrying the passenger is responsible for ensuring that the visitor departs on time, which in turn has discouraged use of this visa. Two-year multiple entry visas can be issued to American tourists and business representatives. In general, these visas are only issued at Oman's Washington embassy, although U.S. professionals residing in GCC countries can receive multiple-entry visas at the port of entry. Visa denials are not unusual for unaccompanied women tourists and young adult males. In late 1996, the Royal Oman Police reduced non-resident stays from two months to one month per entry, thereby hampering business visits of longer duration by U.S. and by non-U.S. citizen employees of U.S. firms. These visas can only be extended outside Oman, so visitors whose activities keep them here longer than a month face the added expense of a trip, usually to Dubai, for a visa renewal.

6. Export Subsidies Policies

Oman's policies on development of light industry, fisheries, and agriculture aim to make those sectors competitive internationally. Investors in these three sectors receive a full range of tax exemptions, utility discounts, soft loans and, in some cases, tariff protection. The government has also set up an export guarantee program which both subsidizes the cost of export loans and offers a discounted factoring service.

7. Protection of U.S. Intellectual Property

Oman's record on intellectual property protection has improved dramatically in recent years, in tandem with its efforts to accede to the World Trade Organization (WTO). Oman will have to meet its obligations under the WTO's Trade Related Aspects of Intellectual Property (TRIPS) Agreement immediately upon WTO accession. Oman is a member of the World Intellectual Property Organization (WIPO), and in 1998 declared its accession to the Paris Convention for the Protection of Industrial Property (patents, trademarks and related industrial property) and Berne Convention for the Protection of Literary and Artistic Works. In 1998 and 1999, the Omani government implemented a ban on sales of pirated video and audiocassettes and pirated computer software, which once had dominated the local market. Since government enforcement of these bans began, sales of pirated tapes and computer software has virtually disappeared.

Oman has a trademark law which it enforces. It does not, however, protect well-known marks unless they are registered in Oman. Application for trademark protection also requires a local agent. Oman affords little or no patent protection in critical areas such as pharmaceutical products. Oman has said it would recognize patents issued by the GCC patent office, but that offer will be of little value until the GCC patent office, which opened in November 1998, is running effectively.

8. Worker Rights

Sultan Qaboos issued a Basic Law November 6, 1996 that serves as Oman's first written basic framework, akin to a constitution but consistent with Islamic Shari'a Law. In theory, the Sultanate should have issued legislation implementing the Basic Law's provisions within two years of its issuance. It is unclear whether or how any of the expected implementing measures will affect worker rights.

a. The Right of Association: Articles 33 and 34 of the Basic Law establish the right to assemble and freedom of association when consistent with legal limitations and objectives. Currently, Omanis and resident foreigners alike are free to join only the relatively few officially sanctioned associations.

b. The Right to Organize and Bargain Collectively: Since 1994, the Sultanate has indicated that it is reviewing a new labor law drafted by the Ministry of Social Affairs and Labor. Sultanate officials have characterized its provisions as consistent with international labor standards. It will reportedly contain a provision for the establishment of worker committees in the work place and remove the current prohibition against strikes. Oman is a member of the International Labor Organization.

c. Prohibition of Forced or Compulsory Labor: Compulsory or forced labor is illegal. That said, foreign workers are typically unaware of their right to take disputes over contract enforcement to the Labor Welfare Board or are afraid that questions regarding their employment status will result in deportation.

d. Minimum Age for Employment of Children: The Ministry of Social Affairs and Labor enforces 13 as the minimum employment age. Employers require the Ministry's approval to engage children between 13 and 16 years of age in overtime, night, weekend or holiday, or strenuous work. Nonetheless, small family businesses in practice may employ underage children, particularly in the agricultural and fisheries sectors.

e. Acceptable Conditions of Work: The minimum wage for nonprofessional expatriate workers is about $156 month, less any charges by Omani sponsors for the workers' visas, but does not cover domestic workers, farm hands, government employees, and workers in small businesses. Omani nationals tend to be well protected. Most employed Omanis work for the government, with a 35 hour work week and generous leave of between 42 to 60 days annually plus 9 days emergency leave and Omani holidays. Skilled foreign workers predominate in private sector employment and enjoy regionally competitive wages and benefits. Whether covered by the law or not, many unskilled foreign workers work for less than the minimum wage and for hours exceeding the 40 to 45 hour private sector work week. The temperature during Oman's hot summer has never been officially recorded at the 50 degree (Celsius) mark, which, adhering to an International Labor Organization standard, would mandate the stoppage of outside labor. Non-Muslim workers are expected to respect the Ramadan month of daytime fasting by not publicly drinking or eating. Foreign workers find Oman very attractive for its employment opportunities and general living conditions.

f. Rights in Sectors with U.S. Investment: To date, U.S. firms have little direct investment in Oman. U.S. petroleum firms operating in Oman comply fully with Omani labor law.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		59
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		84

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.